

'Can We Afford It?'

Heed state analyst, TV guru: Cut California's spending

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By MICHELLE STEEL

On her hit show, financial guru Suze Orman offers intervention for struggling consumers addicted to spending and ignorant of their financial future. In one segment titled "Can I Afford It?" this no-nonsense adviser bluntly evaluates callers' spending desires based on their financial 411.

Unsurprisingly, Orman rejects most consumers' spending requests for three reasons: incompatible income and expenses, insurmountable credit-card debt, and insufficient savings for retirement.

Orman's "Can I Afford It?" segment could be an account of California's perennial budget crisis. California's excessive new spending, maxed-out credit cards and poor long-term retirement planning paint a financial picture worse than that of Orman's most egregious callers.

That Basic Question

This month, Gov. Schwarzenegger unveiled his May revision to California's \$146 billion state budget. His proposal includes reasons for Californians to cheer; record money for schools and early repayment of bond debt are just two. But, before the state Legislature piles on the pork, we need to ask that basic question, "Can we afford it?"

California's Legislative Analyst Elizabeth Hill -- the Suze Orman of Sacramento -- immediately released a critical report evaluating California's capacity to spend. The Legislature needs to follow the legislative analyst's prescient advice when crafting this budget. Among the list of concerns are overly optimistic assumptions about projected revenue, which would potentially create a \$3 billion deficit this year and \$5 billion deficit the following year.

Furthermore, the proposed budget maintains a mere \$529 million budget reserve. California's revenue fluctuates with changes in the economy, stock market and oil prices. Without a sizable reserve, a change in the economy could spell disaster for state government. That's why the Legislature should immediately act on the governor's revenue proposals, such as ratifying new tribal gaming compacts whose delay is costing California more than \$1.26 million per day.

A \$3 billion deficit would be manageable if it were the only problem facing our state. However, coupled with \$92.6 billion in credit-card debt, California has relatively few options. The state has relied too heavily on economic recovery bonds over the past five years. Our current debt is equivalent to 96 percent of California's annual state revenue. Now that California's credit cards are virtually maxed out, we no longer have the option to balance the budget with borrowing.

Yet, both of these problems pale in comparison to what's missing from the balance sheet: retirement planning. New accounting rules require government entities to begin reporting the true cost of retiree benefits. A May report by state Controller John Chiang revealed that California's retiree obligations could reach a \$48 billion liability.

Fortunately, Chiang is sounding the alarm about California's impending unfunded retiree health-benefit crisis. As he explained, "Moving away from the pay-as-you-go approach will save the state more than \$16 billion over the next 30 years and reduce by \$1 billion the annual amount we need to meet our current and long-term obligations." The pay-as-you-go approach pays costs as they come due annually, without planning for future liabilities. The Legislature should follow Chiang's lead in addressing this issue.

Save Now to Survive

Just like an individual planning for retirement, the earlier California saves for retiree health care, the better. The Legislature must take the first step of setting aside \$2.59 billion this year to properly prepare for this major liability. Orman wouldn't approve of borrowing from your 401(k) plan to buy a new convertible. In the same way, California should not approve new programs while neglecting its retiree liabilities.

Financial planners advise families to consider their entire financial picture, including debt and retirement, when they answer the question, "Can I afford it?" While California's \$146 billion state budget may be larger than the budget of the average family of four, that doesn't mean our state can be any less responsible when answering the question.

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